

WORLD-FIRST BY JUST RETIREMENT: ENHANCED WITH-PROFIT ANNUITY

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National Treasury published a series of papers between 2012 and 2015 on the shortcomings of the annuity market in South Africa and draft default annuity regulations to address these. Just Retirement, a UK-listed specialist annuity provider, entered South Africa as a direct response to these challenges with a view to improving customer outcomes in retirement. Today we announce the launch of a world-first Enhanced With-Profit Annuity.

Johann Swanepoel, Product Actuary, says: "Retirees need to address two distinct needs. They require a guaranteed income for life to meet their basic needs (food, accommodation, water, electricity and communication) which increase each year with inflation. After these have been met, surplus assets can be invested for maximum long-term growth, and can be drawn on to meet unexpected expenses, or be left to beneficiaries on death."

Living annuities are an appropriate solution for the surplus assets. However, since living annuities do not provide guarantees they are not appropriate to provide the guaranteed income for life to meet basic needs.

Just Retirement's Enhanced With-Profit Annuity provides retirees with a guaranteed income for life that never decreases, regardless of what happens to investment markets or how long they live, and with annual increases targeted to be in line with inflation.

The product has a number of unique features compared to with-profit annuities currently available in the market, which either fail to disclose the investment portfolios operated by in-house asset managers, or where the insurer is conflicted when exercising discretion to smooth annual increases.

The unique features of Just Retirement's Enhanced With-Profit Annuity combine best practices of annuity underwriting and with-profit risk management in a world-first Enhanced With-Profit Annuity:

- The initial annuity income takes account of the health and lifestyle factors of each individual retiree, so that everyone is treated fairly, specifically addressing one of National Treasury's criticisms of the current annuity market. We expect 20% to 30% of retirees to be better off as a result of this, using the intellectual property developed within Just Retirement's group of companies. This will not adversely impact the competitiveness of our product to the remainder of retirees because of the combination of innovations in the overall product design.
- Annual increases are linked to the performance of flagship products of independent providers of asset management solutions. The active asset management solution is provided by Investment Solutions, which selects best-of-breed asset managers, who are given discretion to manage asset allocation and select individual stocks. The passive asset management solution is provided by Sygnia, which selects asset allocation and which market indices to track. These are significant improvements over the in-house asset management solutions offered by some insurers, where underlying investments are not disclosed to investors and where the asset manager cannot be fired regardless of performance.
- The investment returns are smoothed over a period of time to protect clients against short-term volatility in investment markets. This allows the Enhanced With-Profit Annuity to follow an investment strategy focused on long-term growth. The smoothing formula is disclosed and easy to understand.

- One of the most innovative design features is the fact that Just Retirement has no discretion over the increases granted. This removes any conflict of interest between shareholders and policyholders and addresses a concern raised by National Treasury, in their draft default annuity regulations, about other with-profit annuities.

These innovations make the Just Retirement Enhanced With-Profit Annuity a favourable solution to provide the guaranteed income required to meet a client's basic needs in retirement.

- Whilst targeting inflation-linked increases, it is more than 25% cheaper than an inflation-linked annuity. The Enhanced With-Profit Annuity targets inflationary increases rather than fully guaranteeing them, but the track record based on the investment portfolio to which it is linked has outperformed inflation over the past 10 years, despite the worst market crash in recorded history.
- Another annuity option often used in the industry to provide inflation protection is a Fixed Escalating Annuity with annual increases equal to 6%. However, this product only provides protection against expected future inflation of 6% pa, and not periods of unexpectedly high inflation. The Enhanced With-Profit Annuity invests in a balanced portfolio of equities and bonds which has historically provided better protection against inflation in periods of unexpected inflation.

The Just Retirement Enhanced With-Profit Annuity can also be used very effectively in combination with a living annuity to improve retiree outcomes. The security of having covered their basic income needs with the Enhanced With-Profit Annuity allows the retiree to invest a higher proportion of their living annuity in growth assets. Pensioners are usually risk averse and cannot afford their income to reduce which leads many to follow an overly conservative investment strategy with their living annuity leading to lower returns and a resulting poor outcome over the long term. New research done by Just Retirement shows, for example, that a married couple aged 65 and 62, with a retirement benefit of R1m, would have higher income and a higher death benefit available to them after their 27-year life expectancy than if they had invested 100% in a living annuity with 10% lower allocation to growth assets. The research provides compelling evidence that a combination of the Enhanced With-Profit Annuity and a living annuity enhances client outcomes in retirement relative to either of these products used on their own.

(Detailed example shown in separate press release)

Just Retirement is focused on providing improved customer outcomes in retirement. This product is available to retail clients and pension funds.

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For further information, please contact:

Johann Swanepoel

Product Actuary

Tel: +27 (0)21 200 0463

Email: jswanepoel@justsa.co.za

Web: www.justsa.co.za

Issued by:

Cadiz Street Communications

Belinda Viret

Tel.: 021 975 4052

Cell: 083 316 6923

Email: belinda@cadizstreet.co.za